IMPORT CONTENT OF TOURISM: EXPLAINING DIFFERENCES AMONG SMALL ISLAND STATES

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Abstract

Although the import content of tourism industry among small island states is considered to be high, there are wide disparities in the leakage rates among island destinations. This paper seeks to test several hypotheses about factors that are likely to explain the differences in the import content of the industry among nineteen destinations. The study found that the most important factors are country size and domestic agriculture. Interestingly and contrary to expectation tourist per capita housed at a destination and infrastructure development seemed to have little impact on the import content of the industry.

Key words: Caribbean, import content, leakage rates, economic benefits, regression analysis:

Introduction

For some time now the literature has come to recognize that the production opportunities available to many small island states (defined as one with a population of less than four million) are relatively limited because of major economic disadvantages which are intrinsic to their smallness (Commonwealth Secretariat, 1997). Some of the major economic disadvantages identified include a paucity of natural resources, a high degree of openness, overt reliance on a few export commodities and limited ability to exploit economies of scale (Briguglio, 1995). Because of these limitations most small island states have remained relatively undiversified in their export activities and could be best described as mono-economies with the most dominant form of economic activity residing in the area of export agriculture and/or mining (Demas, 1965). The absence of economic diversification had resulted in these economies becoming quite exposed and susceptible to the adverse influences of external events which quite often threatened their economic viability (Shareef, 2003). In an effort to reduce their vulnerability, many of these island states were forced to pursue policies that would encourage and foster economic diversification (Tisdell, 2003).

For many of these countries tourism, partly because of their inherent comparative advantage (Ocampo, 2000) and partly because of the perceived economic benefits that the industry has to offer, was seen as an important diversification strategy that would expand the production possibilities of these economies while at the same time stimulating economic growth (Benavides, 2001). Obviously, this perception was predicated on the belief that tourism has beneficial network effects which would encourage and nurture the growth of a wide range of related
industries through the stimulation of backward linkages with other sectors in the economy (Wahab and Pigram, 1997).

For some time now tourism has become the main engine of growth in many of the island states across the world (Grassal, 2002) and, has been making significant contribution to the growth and development of these economies (Lanza and Pigliaru, 1998). However, there is a growing recognition that these economies have not been benefiting fully from tourism. This, to a large measure, is linked to the high import content of the industry (Vaugeoi, 2003). Generally, the leakage rates among island destinations are relatively large and are ranked among the highest in the world (UNEP, 1996). As a consequence, a substantial portion of the industry’s foreign exchange earnings is accrued outside of these countries and is not available for use in the domestic economies (Jayawardena & Ramjee Singh, 2003).

The debate, relating to the high import content of the industry and the restriction it places on these economies to reap fully the benefits that tourism has to offer, is ongoing. This paper seeks to add a new dimension to the current debate by focusing on the wide disparities in the import content that exist among small island economies. The main research focus will be to examine the factors that lead to these differences. In so doing, the paper will not only explain why the import content of tourism has remained consistently high over the years but will also point to the kind of policies that governments should pursue if the industry is to increase its contribution to national economies.

The paper, however, begins by briefly outlining some of the key economic benefits of tourism to island economies, in general. In the second section an analysis of the leakage rates of the nineteen small island economies (15 from the wider Caribbean and 4 from outside of the region (see appendix I or table Ia for a listing) covered by this study will be undertaken. Section three seeks to answer the main research interest of the paper. The study concludes with a discussion of the results and the implications they hold for these economies.